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Figuring Out the Doha Round

Gary Clyde Hufbauer, Jeffrey J. Schott, and Woan Foong Wong • June 2010 • 128 pp • ISBN 978-0-88132-503-4 • $19.95

The Doha Round of multilateral trade negotiations marked its eighth birthday in November 2009, making it the longest running multilateral trade negotiation in the postwar era. Doha participants continue to disagree about prospective liberalization of agriculture and manufactures and have barely begun to consider reductions in barriers to trade in services. Negotiators have missed every deadline to conclude the talks, leading some to question the viability of the entire venture. After nearly nine years of inconclusive meetings, the trade talks are at a tipping point: A global trade deal is still possible with renewed political commitment to trade reform, but continued drift could result in the first outright failure of a multilateral trade round in the postwar era.

Hufbauer, Schott, and Wong show that the Doha Round can still be successfully concluded with a concerted push by the major trading nations. Contrary to the Doha doomsayers, the potential gains from proposals now on the table are significant, albeit not sufficient to close a deal. With additional effort, particularly by the Group of 20 (G-20) members in the services negotiations, member countries of the World Trade Organization (WTO) can put together a Doha package that is both ambitious and balanced between the interests of developed and developing countries. To illustrate their argument, the authors calculate both *trade gains* and *GDP gains* for the major market access initiatives in the Doha Round.

They consider that both exports and imports deliver trade gains. Politicians and unions often take a mercantilist approach to trade: Exports are good and imports are bad. However, imports provide benefits for consumers in three ways: They deliver lower prices, better quality, and greater variety. Consumers are not just individuals; industries are consumers as well, and they benefit from imports in the same ways.

The authors first estimate potential *trade gains* from the "formula cuts" in tariffs specified in the negotiating "modalities" on agriculture and nonagricultural market access (NAMA) drafted by the chairs of the Doha Round negotiating groups. They then estimate the benefits that could result from the elimination or substantial reduction of tariffs in three sectors, namely chemicals, information technology goods, and environmental goods, that go beyond the liberalization that would result from the formula tariff cuts. The authors selected these three sectors because they are among those most often cited by officials from major trading nations to be the subject of new sector initiatives and because sector breakthroughs would make a major contribution to the overall package.

In services, perhaps the linchpin of the Round, the authors calculate prospective gains from a 10 percent reduction by major trading nations in the tariff equivalent of barriers to the imports of services.[1] The 10 percent benchmark, which they recognize is an arbitrary and optimistic goal, would yield large gains for both developed and developing countries. Finally, the authors estimate the benefits from enhanced trade facilitation measures, primarily drawing on analyses by John Wilson, Catherine Mann, and Tsunehiro Otsuki in their 2005 paper, "Assessing the Benefits of Trade Facilitation: A Global Perspective."

The dataset the authors use covers 22 Doha participants—7 developed and 15 developing countries.[2] These countries accounted for 73 percent of world exports and 76 percent of world imports in 2008 and for 88 percent of global GDP in 2007. The authors calculate the trade and GDP effects from prospective Doha Round reforms for these countries and then size up the results to estimate global outcomes. Results are also reported for key Doha Round participants: the United States, European Union, China, Japan, Brazil, and India.

Liberalization from implementing what is already "on the table" in agriculture and NAMA would yield an increase in exports of the 22 countries to the world of $67.7 billion. Exports of these 22 countries to the world would increase by another $55 billion from a 10 percent liberalization of services barriers; by a further $70.9 billion from the three sector initiatives; and by an additional $86.8 billion from serious trade facilitation. In other words, total export gains of the 22 countries to the world could reach $280.4 billion.

1. For example, a 10 percent reduction in a tariff equivalent barrier of 40 percent would be a 4 percentage point reduction, down to 36 percent.

2. The 7 developed countries are Australia, Canada, the European Union, Japan, Norway, Switzerland, and the United States. The 15 developing nations are Argentina, Brazil, China, Colombia, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, the Philippines, South Africa, Taiwan, Thailand, and Turkey.

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The authors also estimate global *GDP gains*. Based on the modalities currently on the table in agriculture and NAMA, trade growth by the 22 sample countries would yield global *GDP gains* of $63 billion, about 0.1 percent of GDP. Bold new initiatives on liberalizing services and freeing trade in the three sectors could increase global GDP by an additional $101.9 billion. Improvements in trade facilitation could yield further global *GDP gains* of $117.8 billion, provided governments engage in wide-ranging policy and administrative reforms. In sum, the Doha deal "on the table," topped up with additional liberalization in services and manufactures plus expected gains from trade facilitation reforms, would raise the value of the Doha package, measured in global *GDP gains*, to as much as $282.7 billion. This would deliver a 0.5 percent increase in GDP for the 22 Doha participants in the sample.

WTO members expect that a final deal should provide relatively larger benefits for developing countries if Doha is to meet its advertised goal of being a "development round." Overall, the authors find this to be the case. If the authors' recommendations are followed, developing countries would see a potential payoff of 1.3 percent increase in *GDP gains*, more than four times the GDP payoff in developed countries (0.3 percent). *GDP gains* from agriculture and NAMA formula cuts for developing countries amount to 0.2 percent of GDP, more than double the percentage increase of 0.1 percent for developed countries. In services, under a 10 percent liberalization scenario, *GDP gains* for developing countries reach $21.5 billion, a 0.2 percent increase, compared with $18.5 billion for developed countries, an increase of less than 0.05 percent. The increase in trade from the three sector initiatives result in *GDP gains* of $31.5 billion for developing countries and $18.2 billion for developed countries. As for trade facilitation, *GDP gains* for developing countries could be $60.4 billion, a 0.6 percent increase, and for developed countries an increase of $43.2 billion, around 0.1 percent.

The table below summarizes the potential *trade* and *GDP gains* by major countries in the negotiations. The United States, European Union, and China are big winners from an ambitious and balanced Doha package of reforms, and they should take the initiative to expand their Doha offers. The broader reforms this study recommends would validate a core objective of the venture, which is officially called the Doha Development Agenda.

While the figures in the table represent optimistic thinking on the authors' part, they are not "pie in the sky" numbers. It may take a decade to reach gains of this magnitude once negotiations are concluded, because concessions will be implemented gradually and trade facilitation reforms will take time to become routine. But the scenarios used in the calculations are straightforward. Agriculture and NAMA modality agreements can be translated into binding commitments and topped up with additional tariff cuts resulting from sector negotiations. New rules on trade facilitation can set the stage for reform on the ground. Reducing applied services barriers by 10 percent will take long hours at the negotiating table but can be achieved with the right combination of "sticks and carrots." All told, the prize is well worth a major push by world leaders.

Potential gains from Doha Round

	"On the table" cuts in agriculture and nonagricultural market access				"Topped up" reforms: Services, sector initiatives, and trade facilitation			
	Trade gains (billions of dollars)		GDP gains		Trade gains (billions of dollars)		GDP gains	
Country	Exports	Imports	Billions of dollars	Percent of GDP	Exports	Imports	Billions of dollars	Percent of GDP
United States	7.6	14.2	9.3	0.1	39.4	45.9	36.2	0.3
European Union	13.4	26.3	16.3	0.1	62.7	53.5	45.6	0.3
Japan	8.1	4.9	5.6	0.1	30.6	13.7	18.6	0.4
Brazil	2.7	1.0	1.5	0.1	6.0	13.9	8.9	0.7
China	16.8	6.9	9.7	0.3	55.7	68.4	52.7	1.6
India	1.9	0.7	1.1	0.1	7.7	20.3	11.8	1.0
Total of 22 sample countries	67.7	66.1	55.5	0.1	280.4	311.6	248.8	0.5
World total[a]	92.8	86.9	63.0	0.1	384.1	409.9	282.7	0.5

a. World total is derived from a simple scaling-up of the sample countries accounting for 73 percent of world exports (2008), 76 percent of world imports (2008), and 88 percent of global GDP (2007).

Note: GDP gains result from increases in the 22 countries' imports from the world and exports to the other 21, not the world. The world total row shows the scaled-up estimate for GDP gains.

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